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The Illinois Manufacturer

www.ima-net.org

Winter 2005

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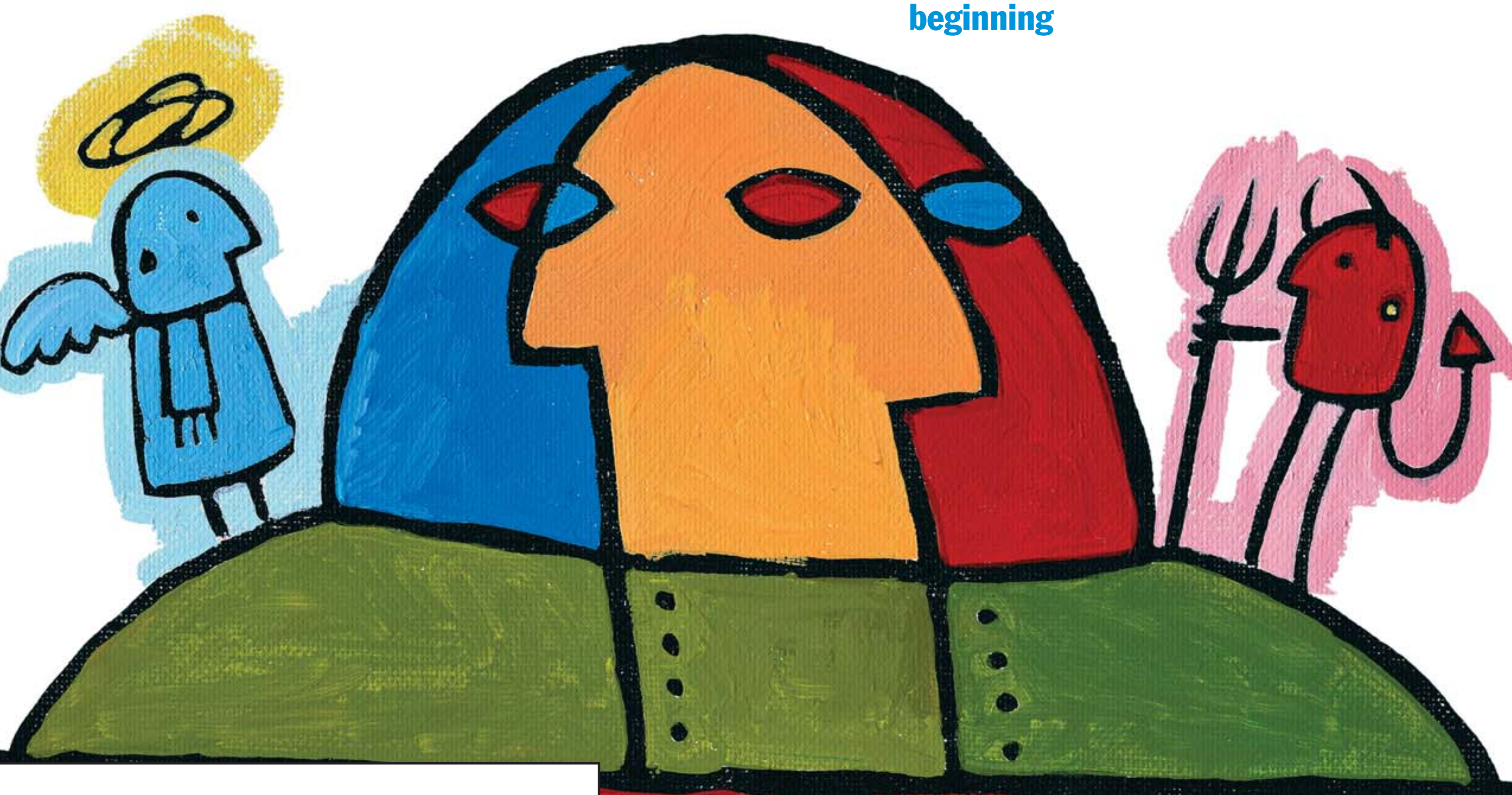

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JOESEPH BALLARINO AND LIVIO ANDREATTA

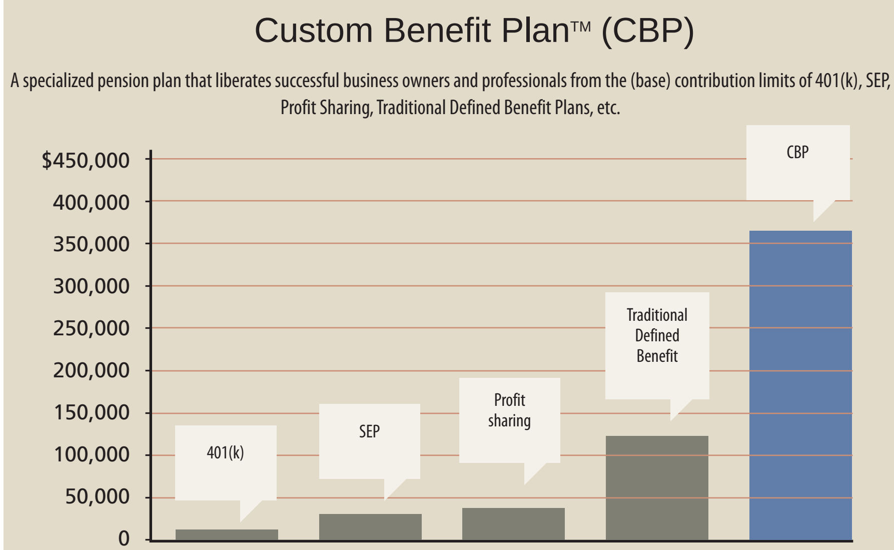
Benefit from tax law changes

Recent tax law changes provide unprecedented opportunities for business owner/employees and executives. These opportunities allow more than $70,000 per year to be tax-deductible and put into a specialized qualified retirement plan known as the Custom Benefit Plan (CBP). This type of annual tax deduction is vastly different than the annual limits of typical retirement plans such as an Individual Retirement Account (IRA), 401(k), Savings Incentive Match Plan for Employees (SIMPLE), Simplified Employee Pension (SEP), profit sharing, etc.

However, all business owner/employees and executives will not be appropriate candidates for the CBP. In fact, only those who have a relatively stable business that generates $70,000 or more of annual cash flow (profits) in excess of their standard of living expenses will be considered for a CBP.

After validating the $70,000 or more qualification, the successful business owner/employee or executive that has a desire for one or more of the following criteria may be an excellent candidate for a CBP.

- Yearly tax deductions of at least $70,000
- Specialized employee benefit plan that legally allows unusually favorable treatment for owner/employees and executives — unlike many other qualified retirement plans that typically discriminate in favor of rank and file employees
- Improvement of existing retirement plan(s) so that more dollars can be tax-deductible contributions and/or the amount and proportion of annual contributions can be restructured for a greater proportion of benefits to the employee/owner and executive
- Aversion to aggressive financial strategies and preference for a regulated and approved type of plan that meets the requirements of the Internal Revenue Service, Department of Labor and Pension Benefit Guaranty Corp.
- Increased Protection of assets from creditors via the Employee Retirement Income Security Act of 1974 (ERISA)
- Large tax deductions that are not subject to Alternative Minimum Tax
- Legal requirements mandate that results are guaranteed — therefore "no surprises" at retirement



The CBP offers business owners a chance to "catch-up" and maximize their business tax deductions. Virtually all "non-custom" plans typically limit tax-deductible contributions and prevent large accumulations.

Some financial advisors may be skeptical of the CBP because as the saying goes, "If it sounds too good to be true, with very few exceptions, it usually is." However, after careful research, it becomes evident that the CBP opportunity is one such exception — as a result of three very strong fundamentals.

1. Congress has received non-partisan input from the U.S. General Accounting Office that the financial basics of future retirees may become more precarious sooner than previously expected. A recent GAO report highlights the findings:

"Today, the Social Security Trust Funds take in more in taxes than they spend. In 2008, the first baby boomers will become eligible for Social Security benefits. Under the trustees' 2004 intermediate estimates, Social Security's cash surplus — the difference between program tax income and the costs of paying scheduled benefits — will begin a permanent decline in 2009. To finance the same level of federal spending as in the previous year, additional revenues and/or increased borrowing will be needed. This shift from positive to negative cash flow, however, will place increased pressure on the federal budget to raise the resources necessary to meet the program's ongoing costs."

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The findings are summarized as follows. "From the perspective of the federal budget and the economy, the challenge posed by the growth in Social Security spending becomes even more significant in combination with the more rapid expected growth in Medicare and Medicaid spending. This growth in spending on federal entitlements for retirees will become increasingly unsustainable over the longer term, compounding an ongoing decline in budgetary flexibility."

2. In recent years, oppressive governmental policies have discouraged the use of retirement plans that allow large annual tax-deductible contributions for successful business owner/employees and executives. While recent years have seen a huge explosion of retirement plans that have relatively low annual limits (for example, 401(k) plans, etc.), the number allowing much higher limits have decreased markedly from the level of such plans in the mid-1980s. Therefore, many rank-and-file employee participants currently receive less (or no) employer retirement plan contributions than previously did.

3. These fundamentals result in an unambiguous Congressional priority as documented in a House Committee Report:

"The Committee is concerned about the low national savings rate, and that individuals may not be saving adequately for retirement … The Committee understands that, for a variety of reasons, older workers may not have been saving sufficiently for retirement. The tax benefits provided under qualified plans are a departure from the normally applicable income tax rules. The special tax benefits for qualified plans are generally justified on the ground that they serve an important social policy objective, i.e. the provision of retirement benefits to a broad group of employees … one of the factors that may influence the decision of an employer, particularly a small employer, to adopt a plan is the extent to which the owners of the business, the decision makers, or other highly compensated employees will benefit under the plan. The committee believes that increasing the dollar limits on qualified plan contributions and benefits will encourage employers to establish qualified plans for their employees."

Bottom line

Recently enhanced and little-known provisions can now provide for new insight into qualified retirement plan design. In addition to much higher annual tax deductions, such plans incorporate federal tax law requirements that provide unusual financial security (via contractual retirement guarantees) as well as increased asset protection against creditors.

Many successful business owner/employees and executives can capitalize on unprecedented opportunity through implementation of a Custom Benefit Plan.